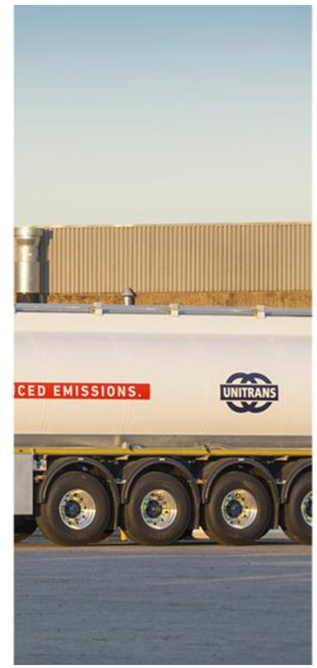
KAP INDUSTRIAL HOLDINGS LIMITED

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019












INTRODUCTION

JAAP DU TOIT

CHAIRMAN

AGENDA

INTRODUCTION	JAAP DU TOIT
STRATEGY IMPLEMENTATION	GARY CHAPLIN
DIVISIONAL OPERATIONAL REVIEW	GARY CHAPLIN
FINANCIAL ANALYSIS	FRANS OLIVIER
OUTLOOK	GARY CHAPLIN
Q&A	GARY CHAPLIN / FRANS OLIVIER

STRATEGY IMPLEMENTATION

GARY CHAPLIN

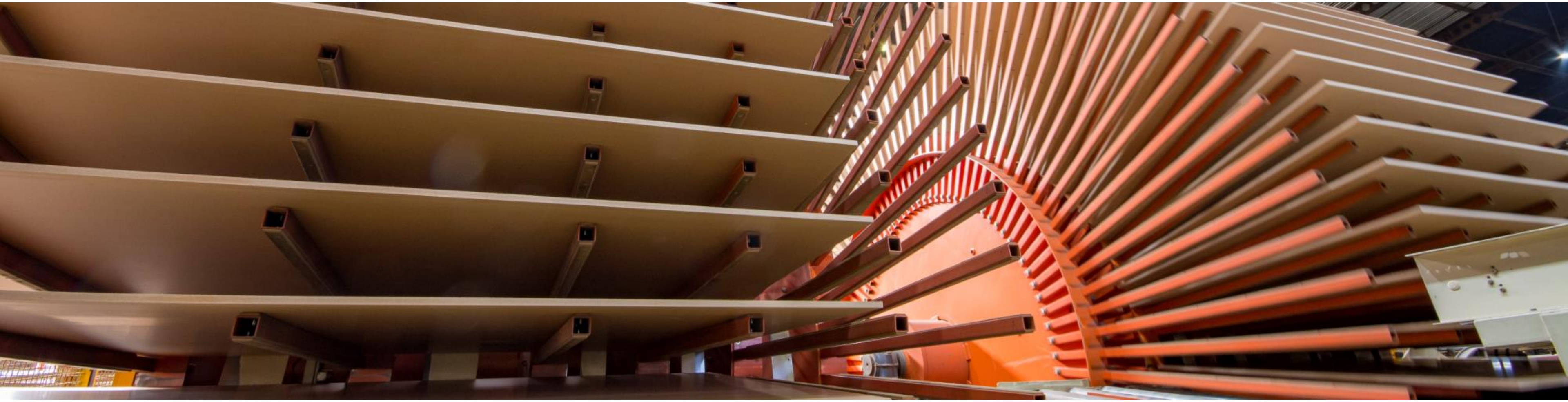
CHIEF EXECUTIVE OFFICER

INTEGRATED INTO EVERY DAY

STRATEGY IMPLEMENTATION

- Operating environment
  - Declining global consumption
  - Ongoing global trade wars
  - Global polymers sector in cyclical downturn
  - Distressed South African macroeconomic and socio-political environment
  - Escalating unemployment and emigration
  - Escalating electricity disruptions
  - Low levels of confidence
- KAP is not immune to these factors
- Our scale in the industries in which we operate exposes us directly to all these factors

STRATEGY IMPLEMENTATION: F2020 FOCUS



Focus areas in current operating environment:

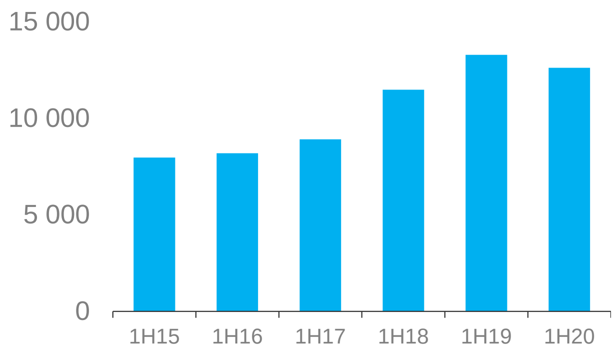
- Increased focus on human capital
  - July/August 2019: Polymers division senior management restructured and new executive committee constituted
  - December 2019: KAP senior management restructured and broader executive committee established
  - Human capital executive appointed – right people in the right jobs performing to their full potential
- Continuing focus on improving efficiencies and reducing operating costs
  - Investing in new technology assets and processes
  - Investing in expanding existing operations
- Grow revenue through market share gains in existing markets
- Grow revenue by entering new markets
- Dispose of non-strategic assets

With the objective of growing earnings, improving margins, generating cash and improving shareholder returns

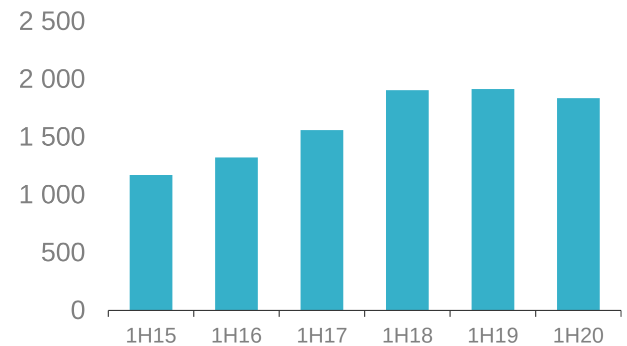
STRATEGY IMPLEMENTATION

FIVE-YEAR VIEW REFLECTS CYCLICAL DOWNTURN IN THE POLYMERS SECTOR AND DETERIORATING MACROECONOMIC CONDITIONS

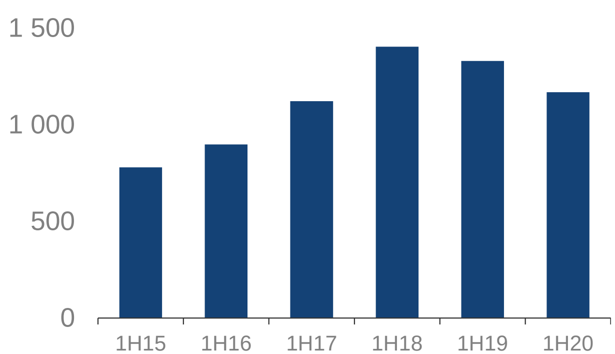
REVENUE (Rm) – CAGR* 10%



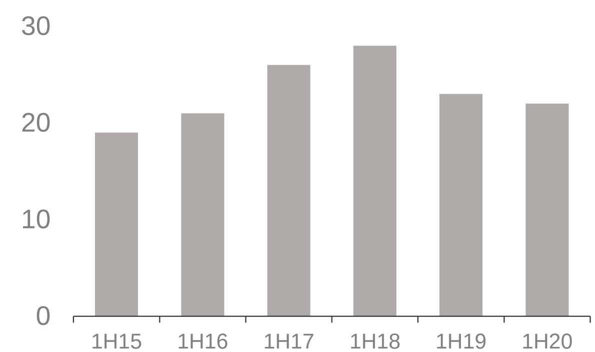
EBITDA (Rm) – CAGR* 9%



OPERATING PROFIT (Rm) – CAGR* 8%



HEPS (cents) – CAGR* 3%

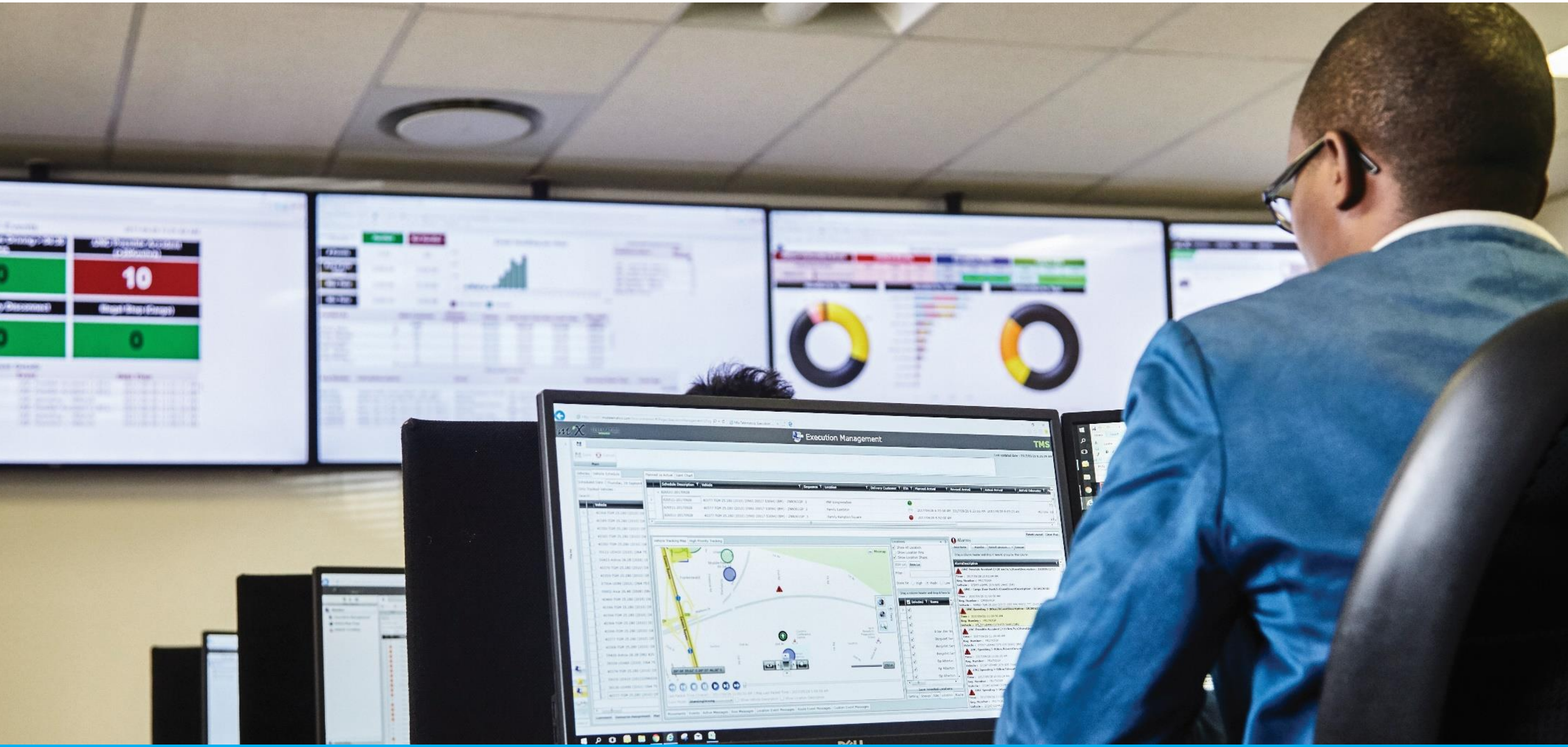


* Compound annual growth rate of continuing operations

DIVISIONAL OPERATIONAL REVIEW

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER



DIVISIONAL OPERATIONAL REVIEW

KAP

GROUP SEGMENTAL ANALYSIS

REVENUE*

DIVERSIFIED INDUSTRIAL	30%
DIVERSIFIED CHEMICAL	31%
DIVERSIFIED LOGISTICS	39%

OPERATING PROFIT*

DIVERSIFIED INDUSTRIAL	54%
DIVERSIFIED CHEMICAL	12%
DIVERSIFIED LOGISTICS	34%

NET OPERATING ASSETS

DIVERSIFIED INDUSTRIAL	38%
DIVERSIFIED CHEMICAL	32%
DIVERSIFIED LOGISTICS	30%

* From continuing operations

INTEGRATED TIMBER

PG BISON

- Panel products business performed well
- Recent technology upgrades and expansions operated ahead of expectation
- Production volume was increased in raw and upgraded products
- Low margin export sales were redirected to facilitate local market share growth
- Low margin traded products were discontinued, thereby improving margin
- Sixth MFB plant successfully commissioned in August 2019
- Value-add ratio increased to 61% (1H19: 54%), thereby improving R/m^3 profit
- Recovery operations in relation to November 2018 fires completed
- New timber processing equipment currently being commissioned to optimise new log mix
- Lower resin demand was offset by an improved product mix
- Contingent liability disclosed in relation to Competition Commission complaint referral

REVENUE

4% ↓

OPERATING PROFIT

5% ↑

AUTOMOTIVE COMPONENTS

- Industry new vehicle assembly volumes decreased by 4% compared to prior period
- Two major OEMs closed in November 2019 and only reopened in January 2020, resulting in revenue loss and a change in model production mix, which impacted on profitability
- The division performed well in spite of this
- Industry light commercial and passenger vehicle sales volumes remained flat
- Maxe operations performed well in spite of subdued automotive retail activity
- Autovest disposed of during December 2019
- Three-year wage deal secured
- B-BBEE Level 4 attained as required by the APDP

REVENUE

FLAT

OPERATING PROFIT

3% ↓

INTEGRATED BEDDING

- Furniture retail focus on specialised bedding category continues
- Retail promotional activity continued to increase
- Strong planning and operational execution supported volume growth and market share gains during peak period
- Focus on independent market continued to support growth in KAP branded product
- Volume growth continued to support integrated business model
- Backward integration was extended to recycled fibre products
- Foam volumes were negatively impacted by lower volumes in the furniture sector and mattress cost re-engineering
- Vitafoam growth into new products and markets gained momentum
- DesleeMattex management was restructured with renewed focus on service, range and production efficiencies

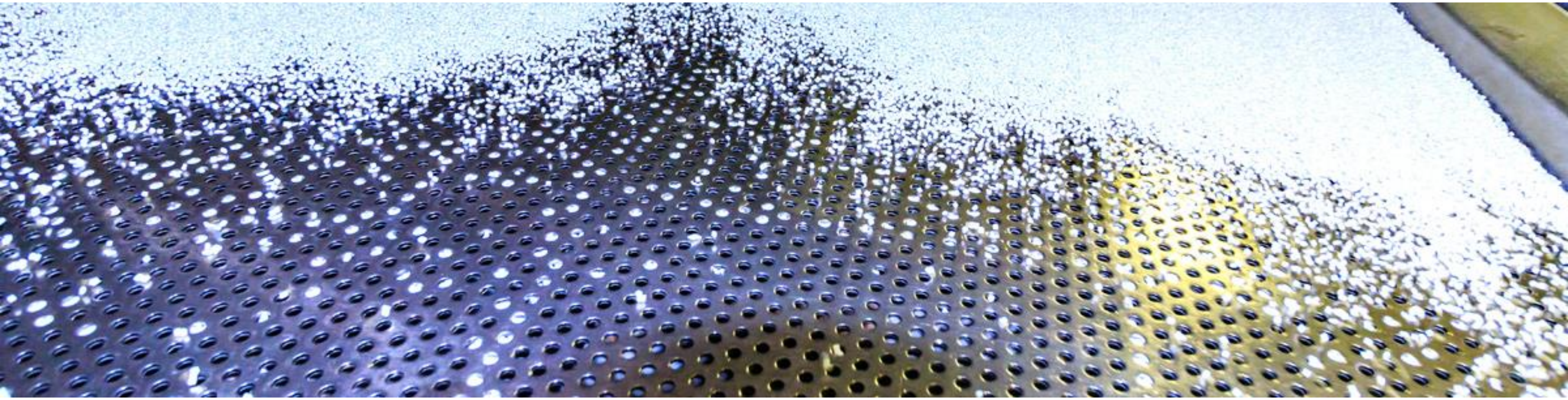
REVENUE

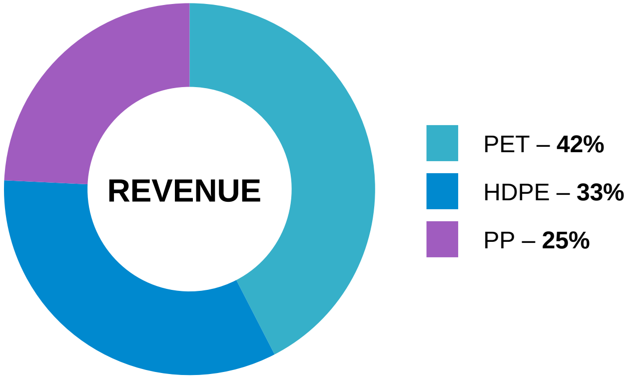
1% ↓

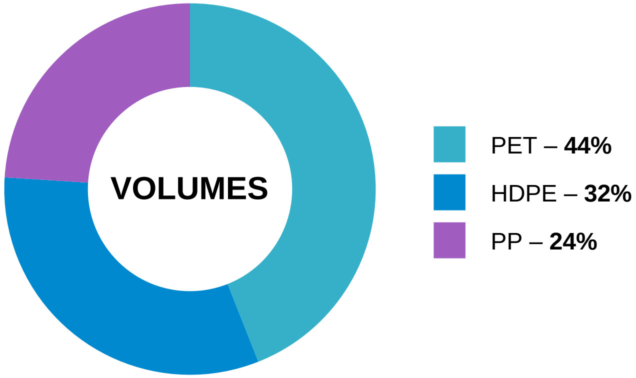
OPERATING PROFIT

2% ↑

POLYMERS







PET – Polyethylene terephthalate | HDPE – High density polyethylene | PP – Polypropylene

POLYMERS

- Margin drivers of polymer operations:
  - Import parity price of PET, HDPE and PP, which is driven by global supply/demand
  - Globally indexed US dollar pricing of ethylene and propylene raw material acquired from Sasol
  - Global PTA, MEG and PIA raw material US dollar commodity pricing
  - Rand/US dollar exchange
  - Commodity and currency changes during PET 'procurement to sales cycle'
- The following factors impacted significantly on the global polymers sector:
  - Subdued global consumption
  - Capacity expansions in the US (monomers and polymers)
  - US/China trade war resulting in an oversupply in non-US territories, including Europe, which exports duty-free to SA
  - War on single-use plastics
- Global margins at unsustainable levels
- Significant margin impact on Polymers division, reflected as follows:

	Margin variance 1H20 vs 1H19	Margin variance 1H20 vs 2H19
PET	(45%)	(20%)
HDPE	(33%)	(1%)
PP	2%	17%

POLYMERS

	PET		HDPE		PP	
	1H20	1H19	1H20	1H19	1H20	1H19
Revenue (Rm)	1 682	1 853	1 318	1 478	1 026	1 092
Sales volume (tonnes)	108 027	92 182	77 715	71 682	58 757	56 598
Production volumes (tonnes)	103 572	102 597	79 074	83 173	59 825	60 065
Average R/USD exchange	14.69	14.18	14.69	14.18	14.69	14.18

- Full management restructure was completed and new executive team established with increased focus on markets, products and customers
- Sales volumes were increased in all three polymers
- PET local sales were increased by 50% with a reduction in export sales
- PET 'wide spec' sales were reduced from 12% in prior period to 3%, due to efficiency improvements
- Production levels were stable on all polymers in spite of electricity disruptions
- PET-related inventory levels were reduced
- Negotiations were initiated in relation to structural change in ethylene markets
- Strong growth in higher margin copolymers (PP and HDPE)
- Sharply depressed global polymer margins result in reduced profitability, overshadowing good progress in other areas

REVENUE

9%

OPERATING PROFIT

70%

CONTRACTUAL LOGISTICS – SOUTH AFRICA

- USCS operated autonomously from Unitrans Africa with new management structure settled and functioning effectively
- Trading environment remains challenging in all sectors with volume and margin pressure reflecting subdued general economic activity
- Food operations (29% of revenue) performed well, following the resolution of a major contractual dispute
- Chemical operations (12% of revenue) performed well due to market share gains
- Mining operations (4% of revenue) performed well following a management change
- General Freight operations (25% of revenue) remained stable
- Petroleum operations (19% of revenue) and Industrial operations (11% of revenue) were negatively affected by subdued fuel, cement and sugar industry activities
- Annualised revenue of renewals – R55 million and new contracts – R195 million
- Annualised revenue of contracts lost – R25 million

REVENUE

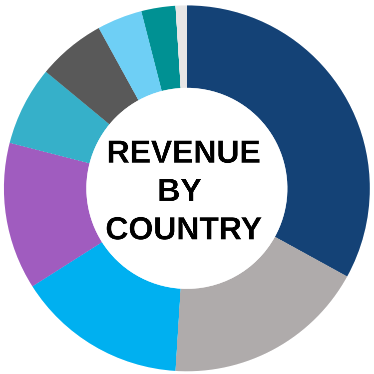
FLAT

OPERATING PROFIT*

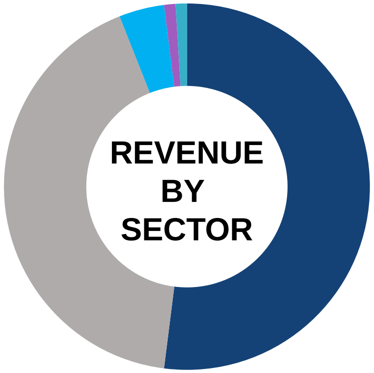
16% ↑

* Excluding B-BBEE cost

CONTRACTUAL LOGISTICS – AFRICA



- BOTSWANA – **33%**
- MOZAMBIQUE – **18%**
- ESWATINI – **15%**
- MALAWI – **13%**
- TANZANIA – **7%**
- NAMIBIA – **6%**
- LESOTHO – **4%**
- MADAGASCAR – **3%**
- ZAMBIA – **1%**



- PETROLEUM – **52%**
- AGRICULTURE – **42%**
- MINING – **4%**
- FEED – **1%**
- CEMENT AND INDUSTRIAL – **1%**

CONTRACTUAL LOGISTICS – AFRICA

- Unitrans Africa operated autonomously from USCS
- Executive restructure and strategy realignment was completed, and recruitment of key positions is in progress to drive growth in the rest of Africa territories
- Main factors impacting negatively on performance were:
  - Revenue reduction through redesign of agricultural processes to improve estate efficiency
  - Margin pressure on contract renewals in Petroleum and Agricultural operations
  - Delayed activities due to financial distress of a large agricultural customer
  - Extended cross-border delays in the Petroleum sector
- Annualised revenue of renewals – R749 million and new contracts – R77 million
- Annualised revenue of contracts lost – R89 million
- Material new contracts secured after 31 December will facilitate expansion in 2H20

REVENUE

5% ↓

OPERATING PROFIT

21% ↓

PASSENGER TRANSPORT

- Commuter and Personnel operations (54% of revenue) showed marginal growth despite the impact of lower passenger activity and escalating unemployment
- Renegotiation of onerous conditions on a large commuter contract is ongoing; however, activities have been restructured in the interim, thereby showing good improvement
- Lower industry passenger numbers and aggressive competition continue to negatively impact Intercity and Tourism operations (30% of revenue)
- Gautrain operations (9% of revenue) remained stable
- Mozambique (7% of revenue) continued to perform well, benefiting from growth in the region
- Strategic review of the Passenger Transport division was completed with resulting actions in progress

REVENUE

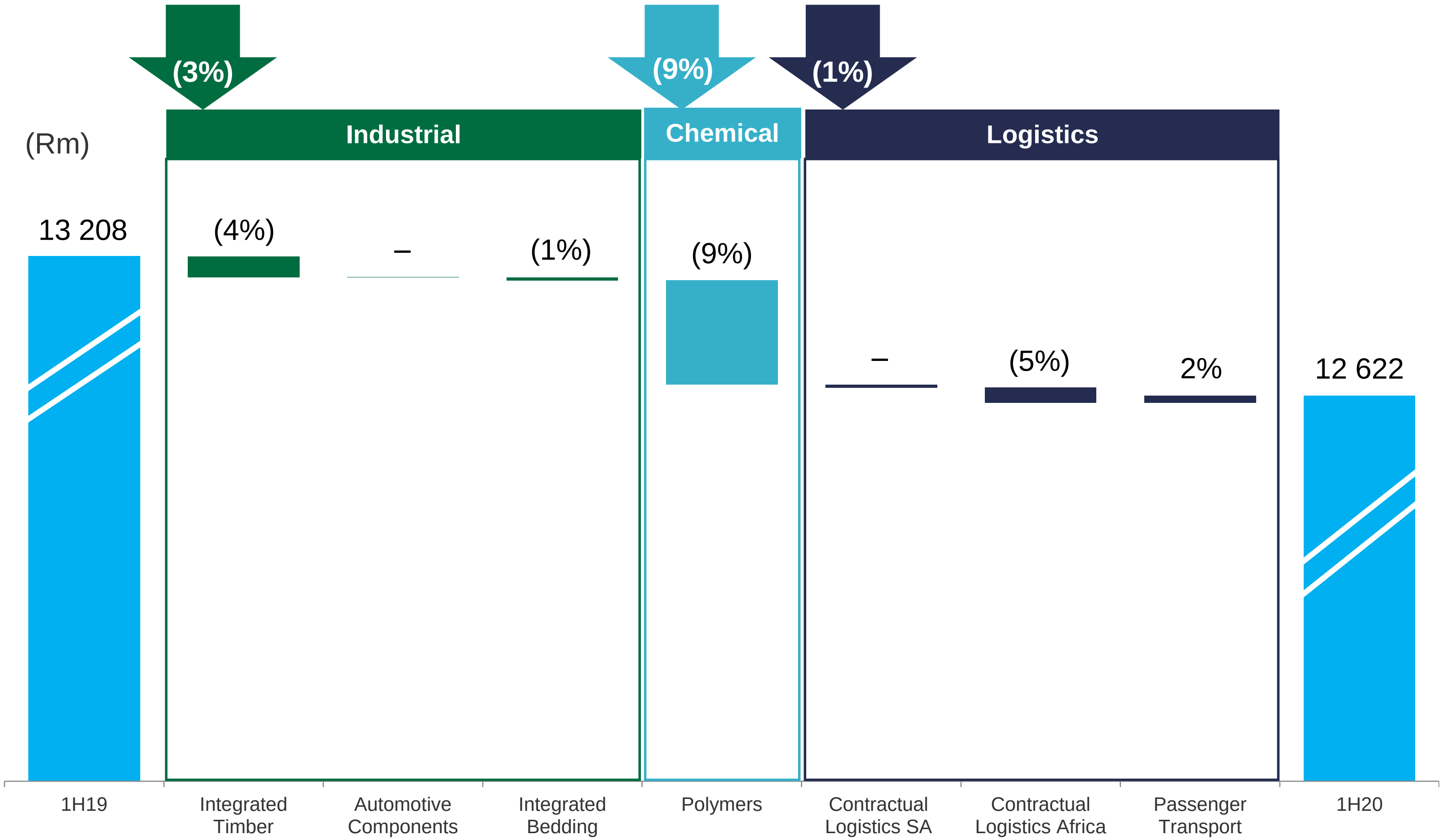
2% ↑

OPERATING PROFIT

10% ↓

DIVISIONAL OPERATIONAL REVIEW

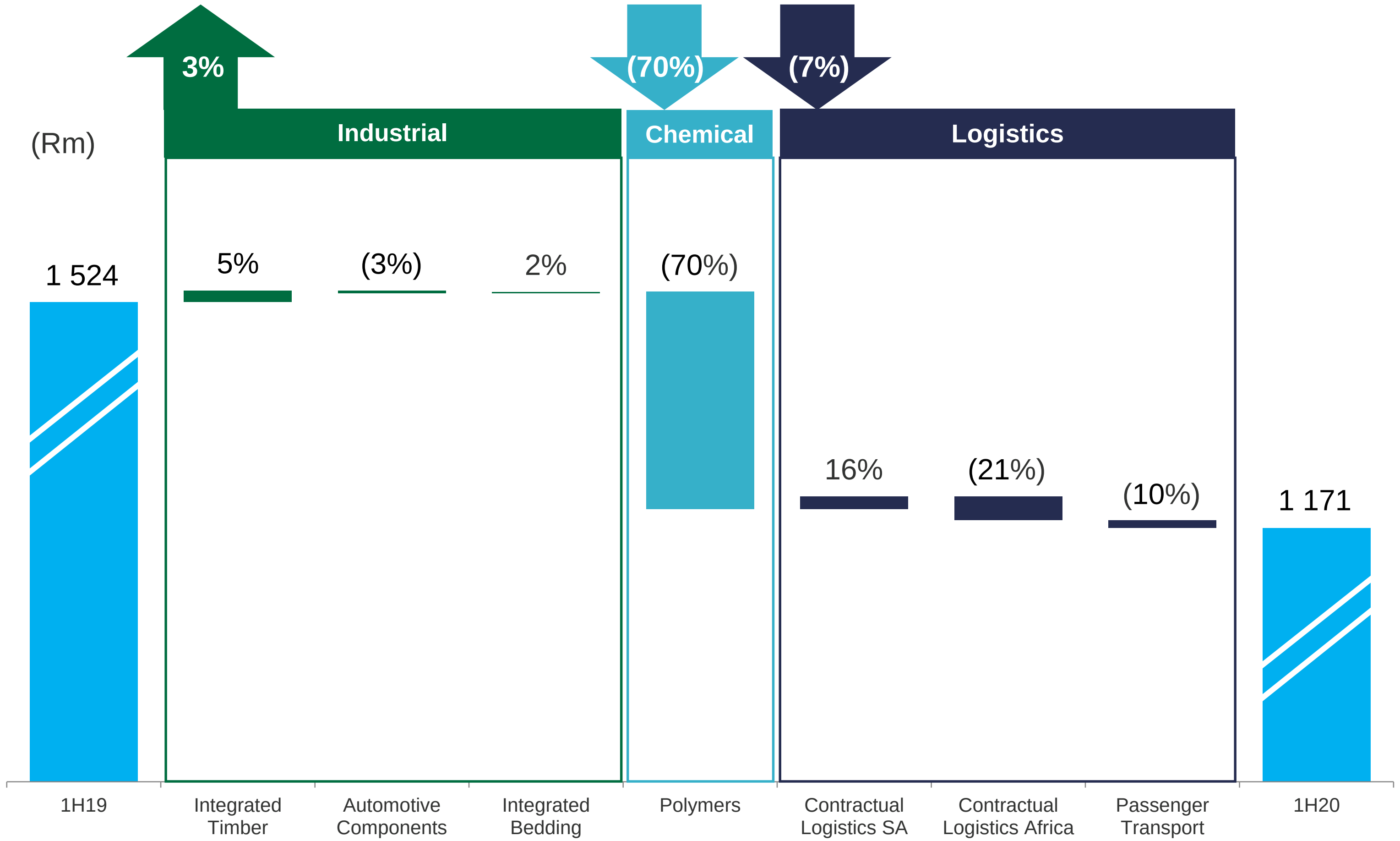
GROUP REVENUE ANALYSIS



From continuing operations

DIVISIONAL OPERATIONAL REVIEW

GROUP OPERATING PROFIT ANALYSIS

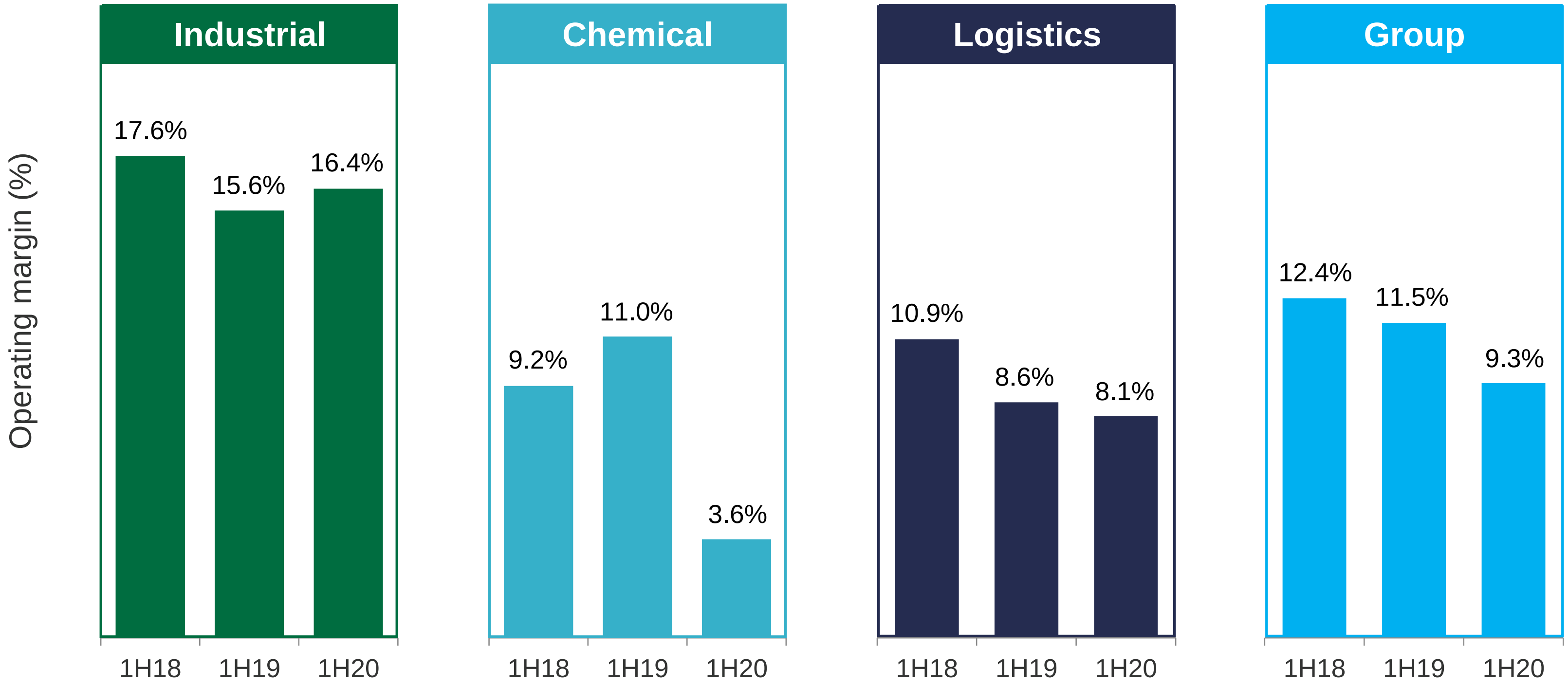


From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

DIVISIONAL OPERATIONAL REVIEW

GROUP MARGIN ANALYSIS

KAP operating profit margin reduced 220 bps to 9.3%

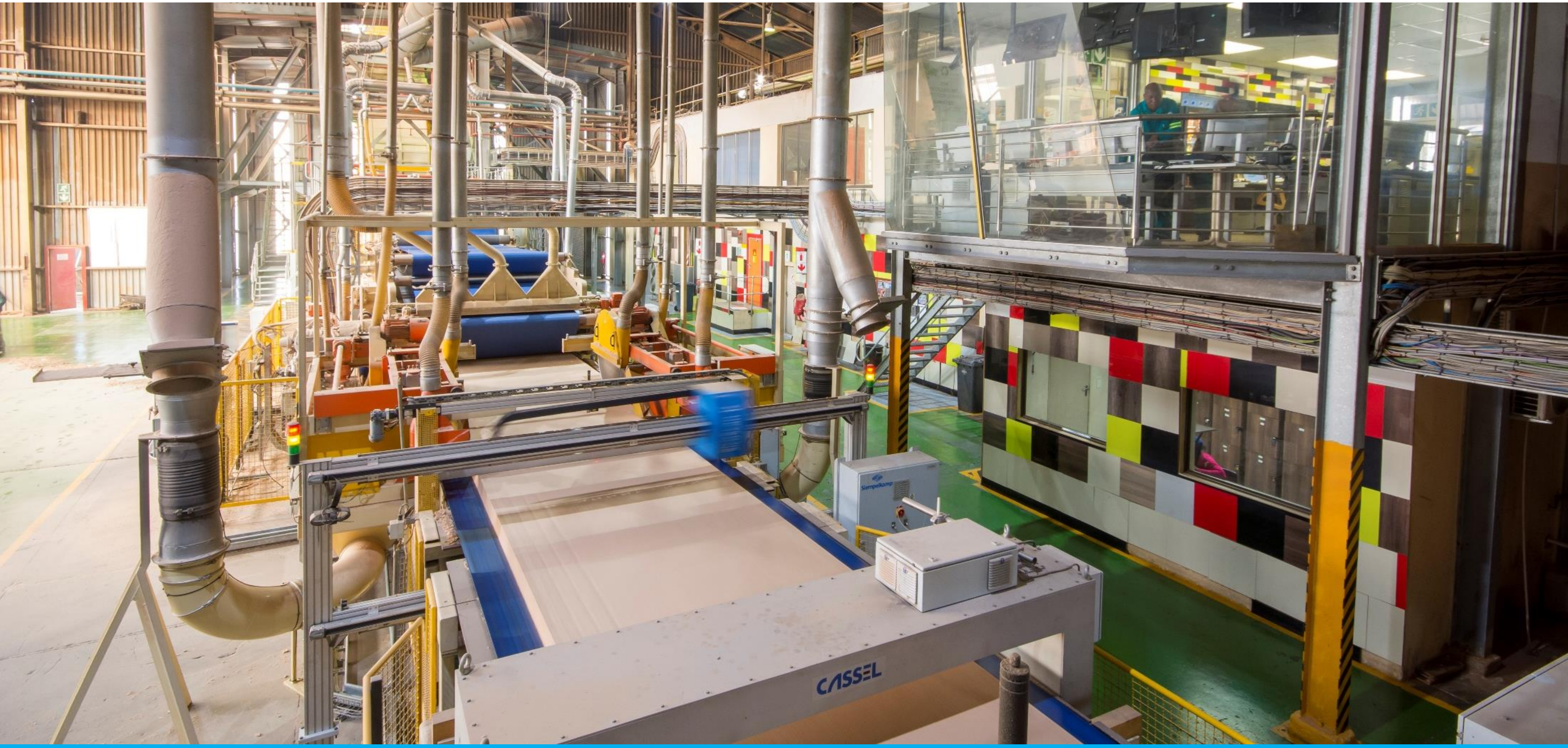


From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

FINANCIAL ANALYSIS

FRANS OLIVIER

CHIEF FINANCIAL OFFICER



FINANCIAL HIGHLIGHTS

KAP

From continuing operations	1H20	1H19	Variance
Revenue (Rm)	**12 622**	13 208	4%
EBITDA (Rm)	**1 835**	1 915	4%
Operating profit before capital items (Rm)	**1 169**	1 330	12%
Headline earnings per share (cents)	**22.0**	23.4	6%
Cash generated from operations (Rm)	**571**	877	35%
Gearing: net debt/equity (excluding IFRS 16)	**54%**	54%	–
Net asset value per share (cents)	**474**	462	3%

FINANCIAL ANALYSIS

KAP

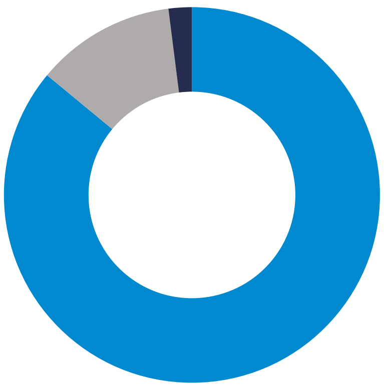
INCOME STATEMENT

From continuing operations	1H20 Rm	1H19 Rm	Variance
Revenue	**12 622**	13 208	(4%)
EBITDA before B-BBEE cost	**1 837**	2 109	(13%)
Depreciation and amortisation	**(666)**	(585)	14%
B-BBEE cost	**(2)**	(194)	
Capital items	**(3)**	2	
Operating profit	**1 166**	1 332	(12%)
Net finance costs	**(340)**	(362)	(6%)
Associate companies and joint ventures	**16**	17	
Taxation	**(224)**	(326)	(31%)
Minorities	**(29)**	(32)	
Earnings attributable to owners of the parent	**589**	629	(6%)
Add back capital items net of taxation	**1**	–	
Headline earnings	**590**	629	(6%)
Weighted average number of ordinary shares (m)	**2 676**	2 688	–
Headline earnings per share (cents)	**22.0**	23.4	(6%)

FINANCIAL ANALYSIS

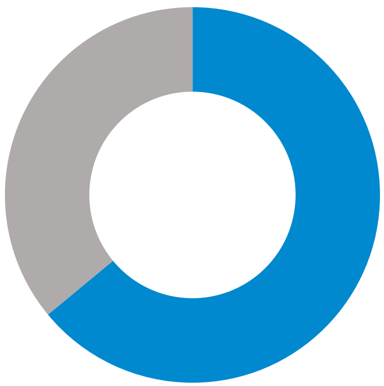
REVENUE ANALYSIS*

Geographic analysis



SOUTH AFRICA – **86%**
REST OF AFRICA – **12%**
OTHER – **2%**

Currency analysis



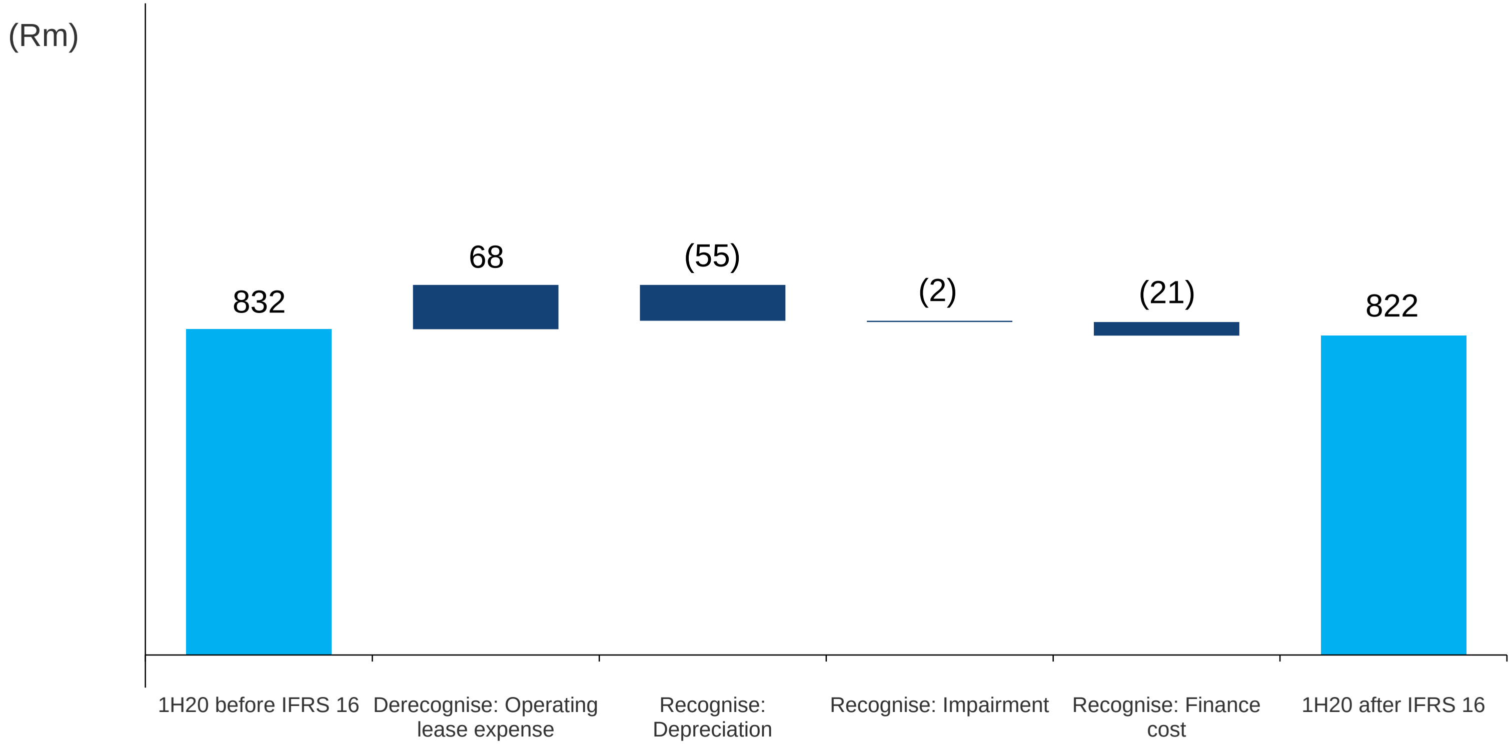
RAND-driven activities – **64%**
US DOLLAR-driven activities – **36%**

- Provides diversity in markets and broader growth opportunities
- US dollar-driven activities impact revenue and raw material prices, therefore representing ‘dollar margin’ business

* From continuing operations

FINANCIAL ANALYSIS

FINANCIAL EFFECT OF IFRS 16 – LEASES ON PROFIT BEFORE TAX



From continuing and discontinued operations

TAX RATE RECONCILIATION

	1H20 %	1H19 %
Statutory tax rate	**28.0**	28.0
B-BBEE cost	**–**	5.4
Profit of associate companies and joint ventures	**(0.5)**	(0.5)
Other	**(1.0)**	(0.1)
Effective tax rate	**26.5**	32.8

From continuing and discontinued operations

FINANCIAL ANALYSIS

KAP

BALANCE SHEET

Balance sheet strengthened with quality assets

	31 Dec 19 Rm	31 Dec 18 Rm
Property, plant, equipment and investment property	**13 152**	12 662
Right-of-use assets	**441**	–
Intangible assets	**3 986**	4 097
Goodwill	**1 258**	1 283
Biological assets	**1 922**	1 907
Net working capital	**2 396**	2 598
Other assets	**208**	292
Assets	**23 363**	22 839
Total equity	**12 642**	12 695
Net interest-bearing liabilities	**7 161**	6 687
Other liabilities	**3 560**	3 457
Equity and liabilities	**23 363**	22 839
Net asset value per share (cents)	**474**	462

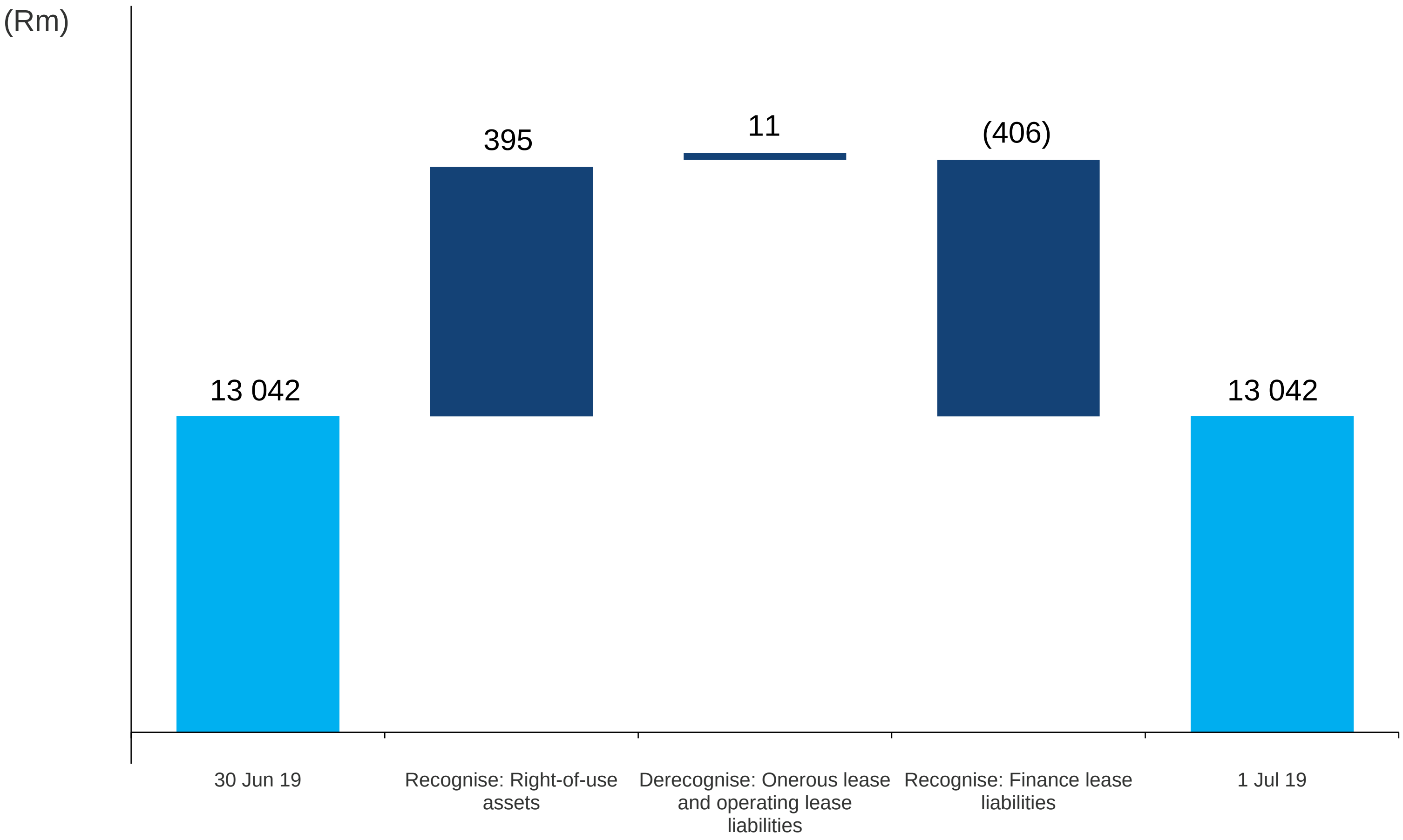
FINANCIAL EFFECT OF THE IMPLEMENTATION OF IFRS 16 – LEASES

	30 Jun 19 Rm	IFRS 16 Rm	1 Jul 19 Rm
Assets			
Right-of-use assets	–	395	**395**
Liabilities			
Finance lease liabilities	–	406	**406**
Operating lease liabilities	9	(9)	**–**
Provisions	6	(2)	**4**

- Modified retrospective approach elected
- Cumulative effect of initial application recognised in retained earnings
- No restatement to comparative information

KAP

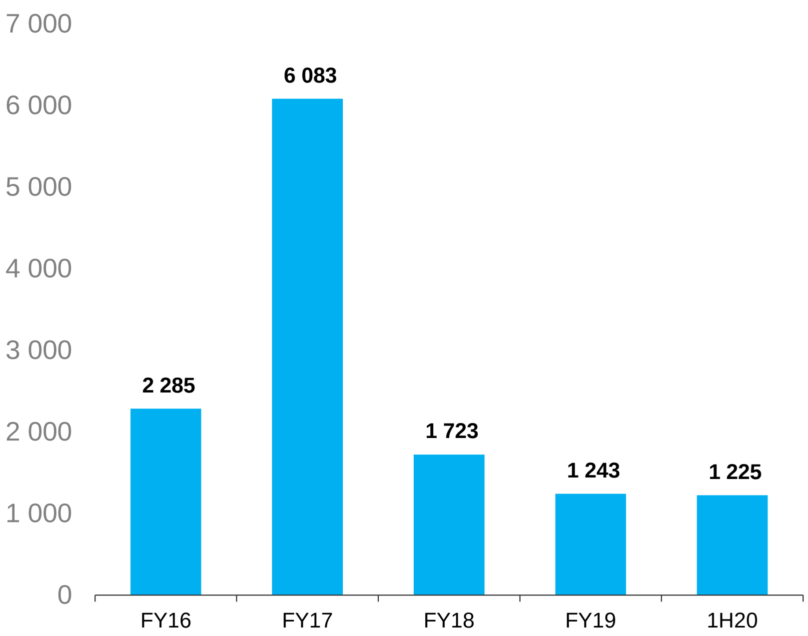
FINANCIAL EFFECT OF THE IMPLEMENTATION OF IFRS 16 – LEASES ON EQUITY



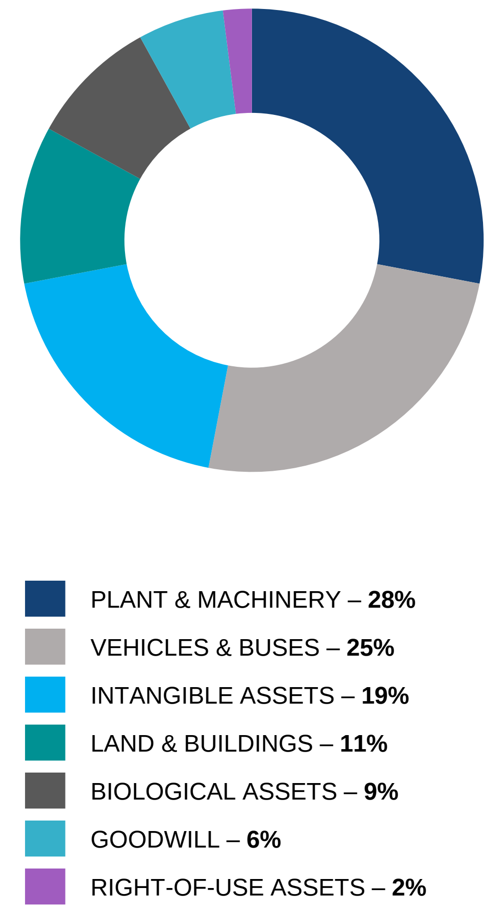
FINANCIAL ANALYSIS

STRONG ASSET BASE OF NEW TECHNOLOGY ASSETS

Capex and acquisition investments (Rm)

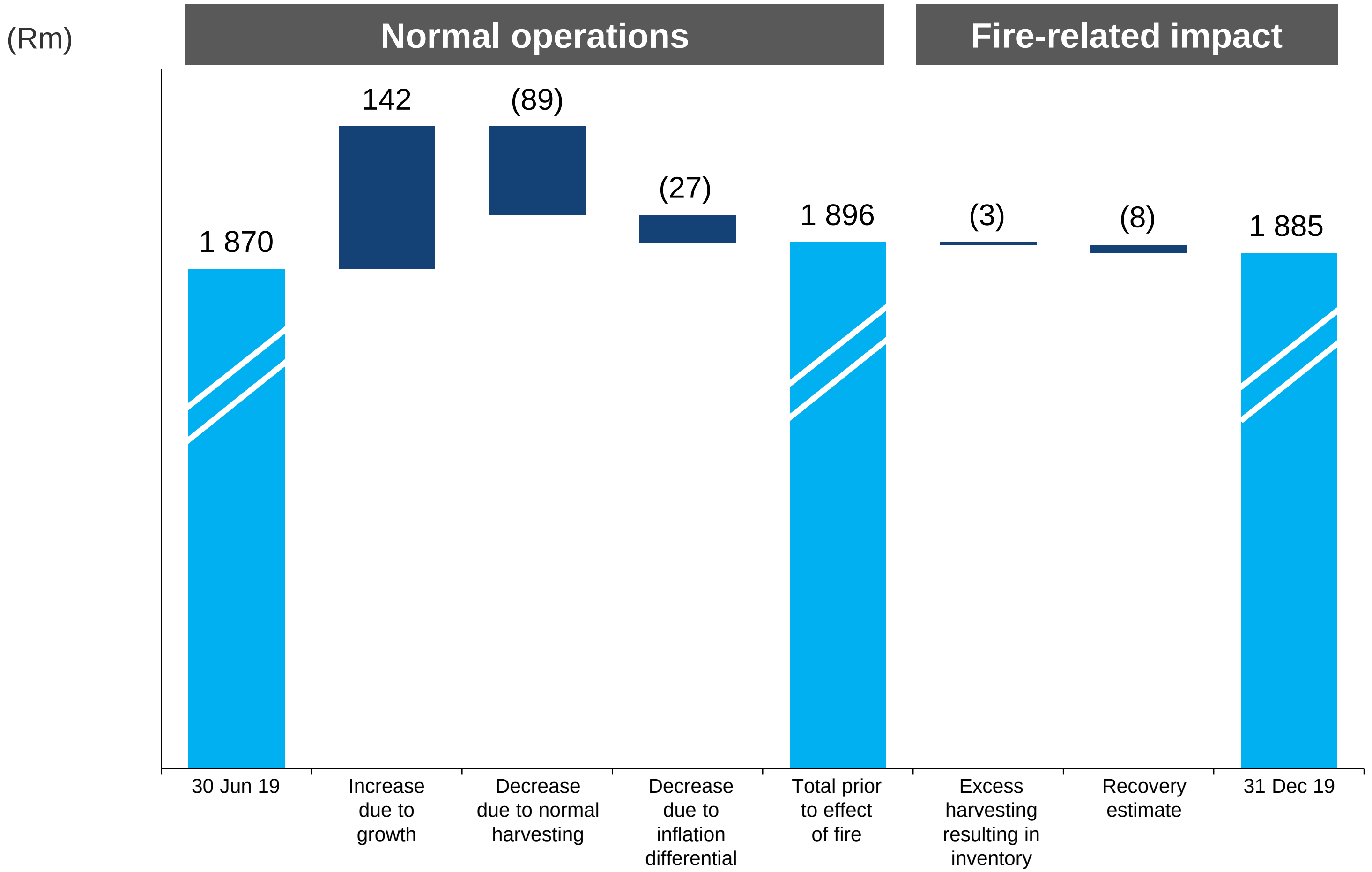


Asset base at 31 December 2019



FINANCIAL ANALYSIS

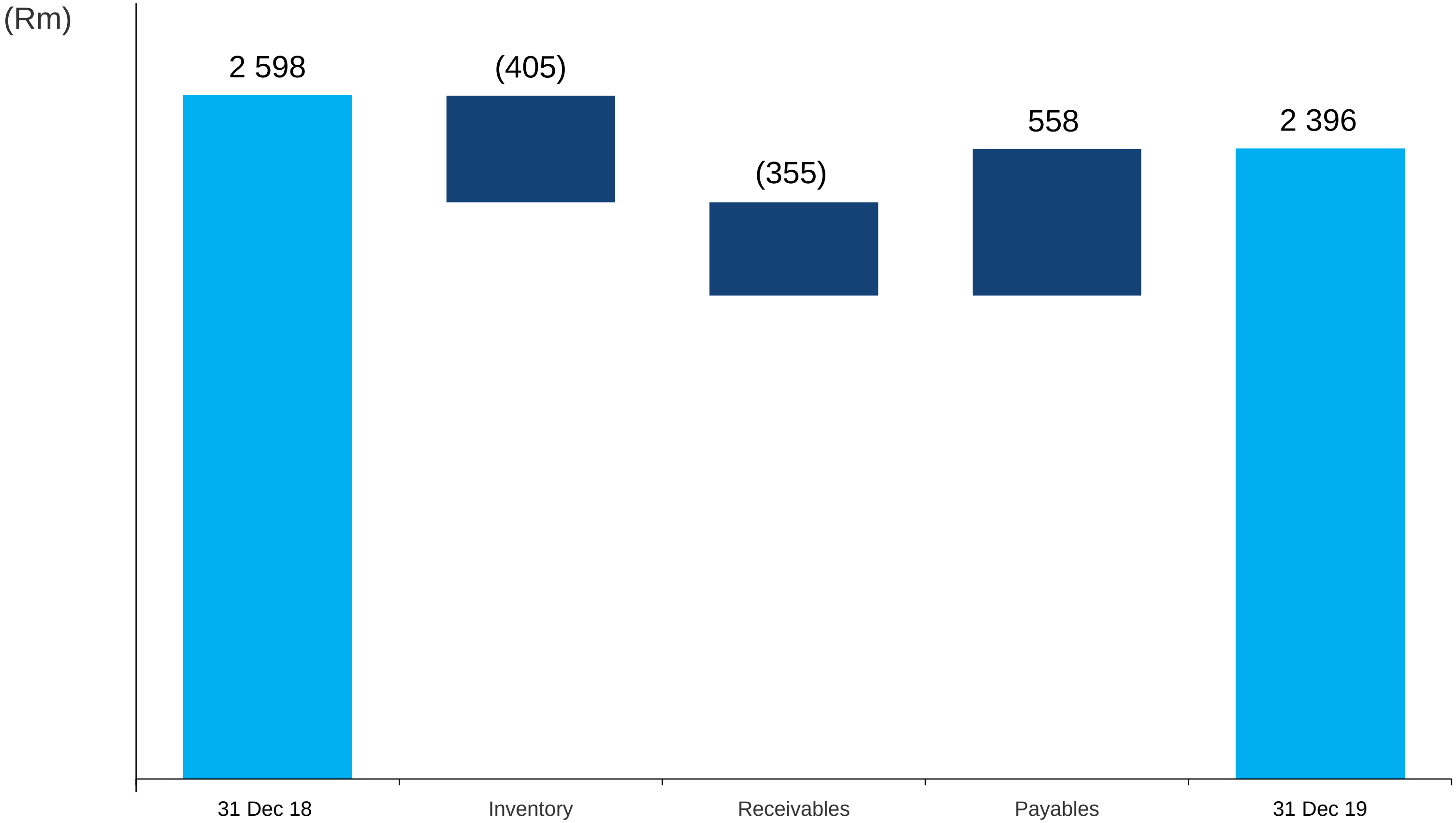
PLANTATION REVALUATION



- Harvesting completed for June 2017 and November 2018 fires

FINANCIAL ANALYSIS

WORKING CAPITAL BREAKDOWN



- Inventory reduction mainly due to Polymers division's lower volumes and lower cost of raw materials
- Receivables and payables movement mainly due to lower polymer and related raw material prices

CASH FLOW

	1H20 Rm	1H19 Rm
EBITDA before B-BBEE cost	**1 837**	2 109
Net revaluation of biological assets	**(19)**	13
Discontinued operations	**(23)**	(18)
Other non-cash adjustments	**13**	36
Cash generated before working capital changes	**1 808**	2 140
Working capital changes	**(1 237)**	(1 263)
Inventory	**(25)**	(739)
Receivables	**153**	(138)
Payables	**(1 365)**	(386)
Cash generated from operations	**571**	877
Net finance charges	**(324)**	(369)
Taxation	**(154)**	(135)
Dividends received	**–**	4
Cash flow from operating activities	**93**	377
Cash conversion ratio*	**50%**	58%

* Excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

CASH FLOW (CONTINUED)

	1H20 Rm	1H19 Rm
Cash flow from operating activities	**93**	377
Investing activities	**(1 209)**	(606)
Expansion capex	**(320)**	(240)
Replacement capex	**(868)**	(462)
(Acquisition)/disposal of investments	**(13)**	101
Other investing activities	**(8)**	(5)
Free cash flow before dividends	**(1 116)**	(229)
Dividends paid	**(647)**	(651)
Shares repurchased	**(373)**	–
Other financing activities	**1 022**	37
Movement in cash and cash equivalents	**(1 114)**	(843)

TREASURY ACTIVITY

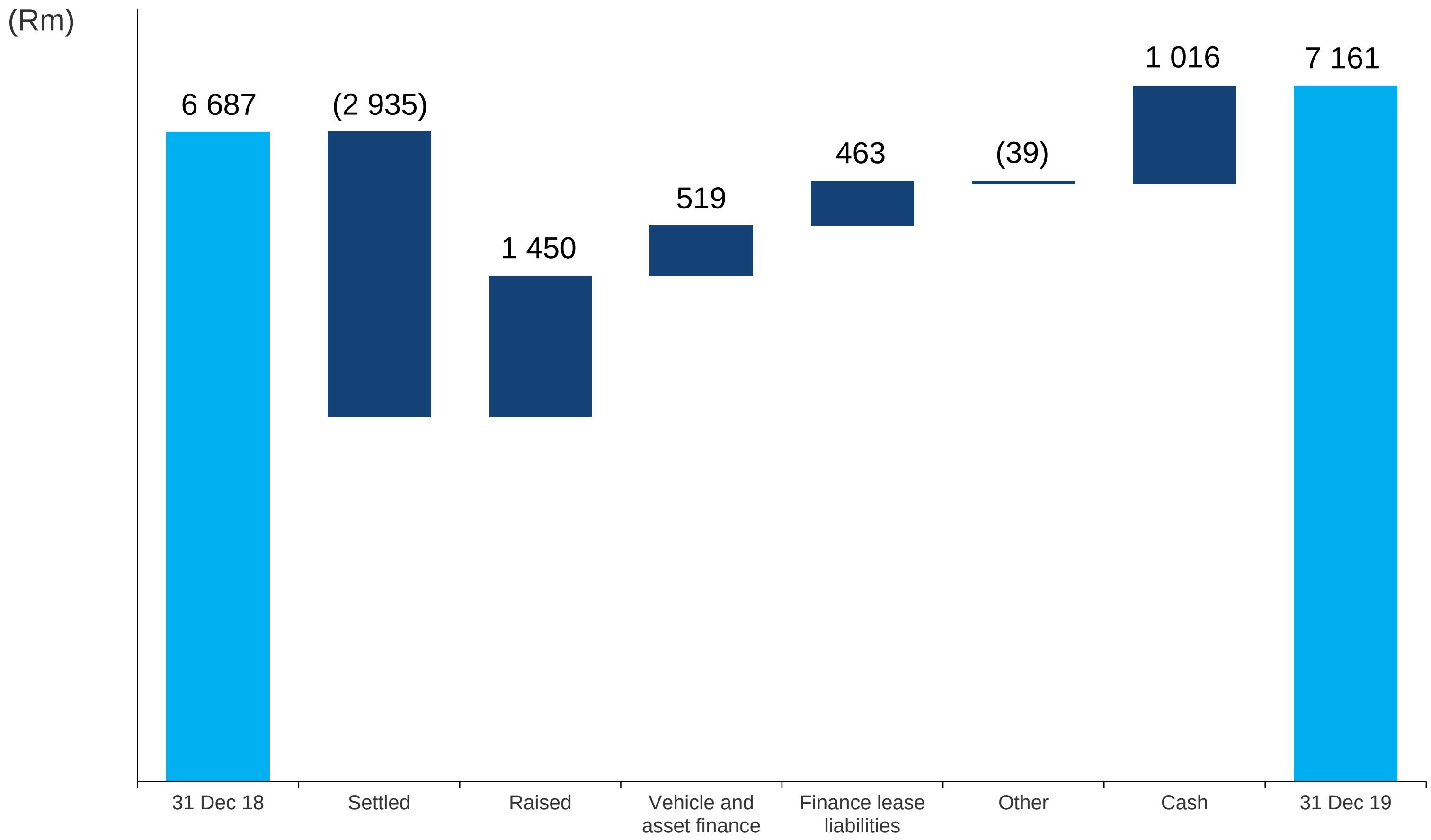
KAP

SHARE BUY-BACKS

Number of shares (million)		Six months ended 31 Dec 19	Year ended 30 Jun 19
Ordinary shares in issue at beginning of the period		**2 704**	2 678
Shares issued		**–**	26
Shares repurchased and held as treasury shares	R373 million	**(36)**	–
Shares repurchased and cancelled		**(46)**	–
Ordinary shares in issue		**2 622**	2 704
Weighted average ordinary shares in issue		**2 676**	2 696

TREASURY ACTIVITY

MOVEMENT IN NET INTEREST-BEARING DEBT



TREASURY ACTIVITY

SIGNIFICANT DEBT FUNDING ACTIVITIES FOR THE PERIOD

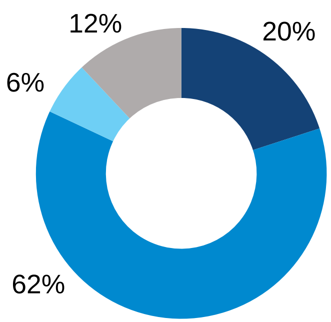
- Corporate bonds settled at maturity:
  - KAP008 – Listed: R374 million
- Corporate bonds issued during the period with a five-year tenure:
  - KAP014 – Listed: R500 million
  - KAP015 – Listed: R250 million
- R1 billion revolving credit facility amended and extended to October 2021
- Global Credit Rating confirmed KAP's rating as A+(za) with a stable outlook

TREASURY ACTIVITY

DEBT SERVICEABILITY RATIOS REFLECTIVE OF STRONG CASH GENERATION

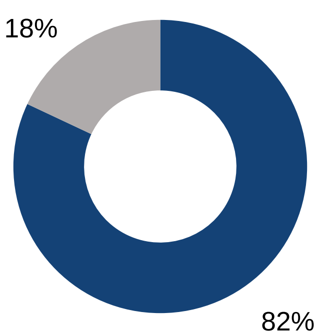
	31 Dec 19	31 Dec 18
Gross interest-bearing debt (Rm)	**7 828**	7 997
Net interest-bearing debt (Rm)	**7 161**	6 687
Equity excluding non-controlling interest (Rm)	**12 420**	12 498
Gearing: net debt:equity	**58%**	54%
Gearing: net debt:equity (excluding IFRS 16)	**54%**	54%
Net debt to EBITDA (times) < 3.2*	**2.0**	1.7
EBITDA interest cover (times) > 3.5*	**5.3**	5.3

* From continuing operations; prior period disclosure has been restated to reflect the Autovest discontinued operation.



FUNDING STRUCTURE

- Banks and financial institutions
- Listed notes
- Unutilised facilities
- Finance leases

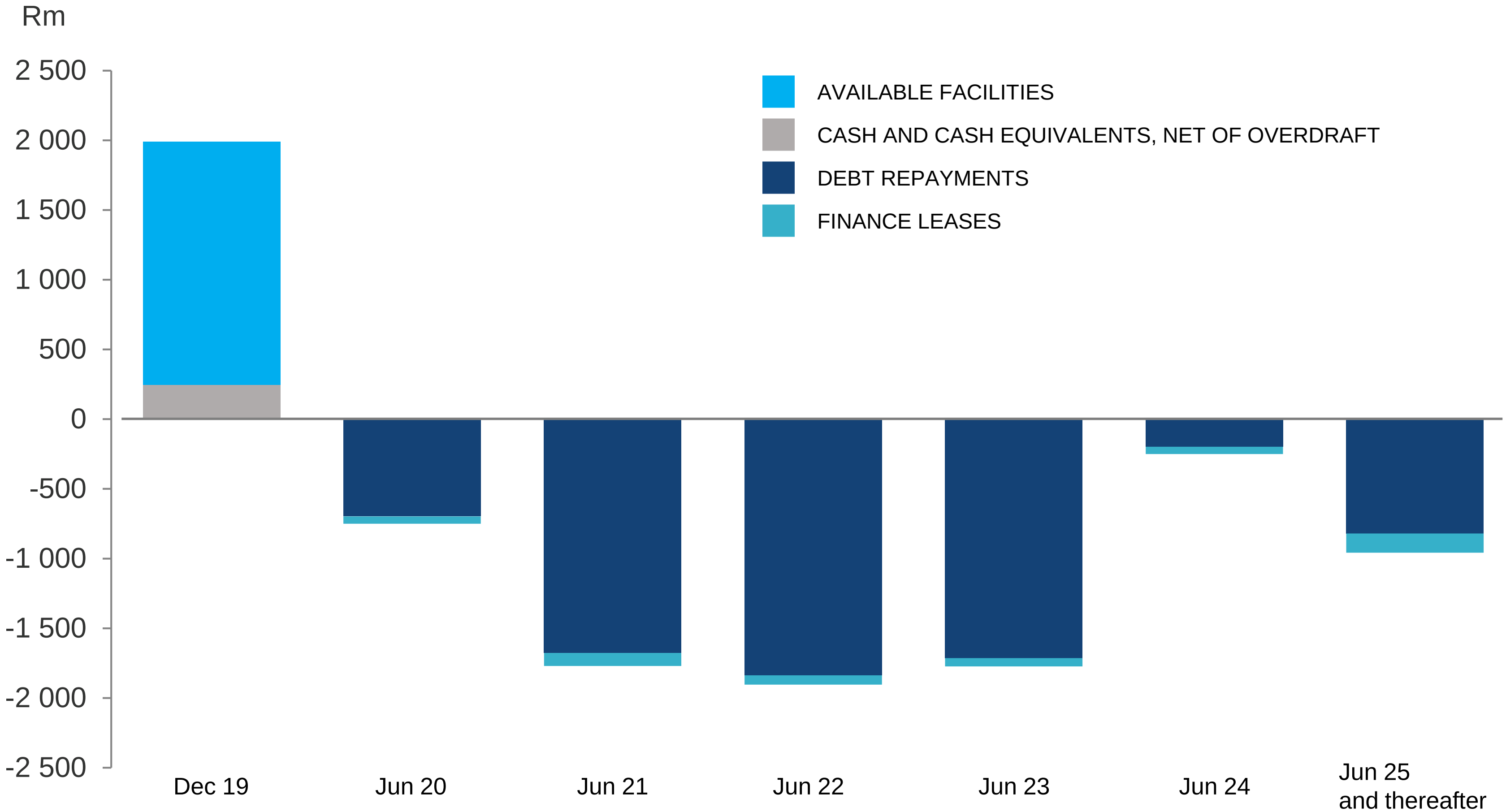


FIXED VS FLOATING INTEREST RATE FUNDING

- Floating interest rate funding
- Fixed interest rate funding

TREASURY ACTIVITY

NET INTEREST-BEARING DEBT MATURITY AS AT 31 DECEMBER 2019



OUTLOOK

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

DIVERSIFIED INDUSTRIAL

Integrated Timber

- PG Bison is well placed in terms of market position and manufacturing capacity/efficiency
- Ugie and Piet Retief expansion projects will increase volume and production efficiency; however, with related plant shutdown costs and lost production during shutdown
- Additional volume is targeted as value-added sales

Automotive Components

- Subdued industry new vehicle assembly volumes expected due to subdued global demand
- Potential F2020 disruption from major replacement model introduction

Integrated Bedding

- Business model will continue to support greater retail promotional activity
- Volume demand for the division's mattress products remains buoyant
- Strategy of brand development, market share growth and process integration to be continued

DIVERSIFIED CHEMICAL

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- Global polymer demand remains subdued but stable
- Monomer and polymer prices are less volatile but severely depressed, resulting in major global polymer producers reporting significant losses and asset impairments
- Polymer markets will be impacted by Coronavirus and resultant demand/supply interruptions from China
- Focus areas for management:
    - Selling full production volume to best advantage with lower exports
    - Moving product mix toward higher-value products (e.g. copolymers)
    - Shortening the ‘procurement to sales cycle’ and minimising inventory in the supply chain
    - Single polymers product offering and logistics solution
    - Completion of R50 million final debottlenecking of PET facility for efficiency improvements and improved yield
- Consumer sentiment towards ‘single-use plastics’ being addressed through coordinated industry initiatives
- Actively seeking opportunities in the recycling sector

DIVERSIFIED LOGISTICS

Contractual Logistics – South Africa

- Economic environment expected to remain challenging
- Management focus will be on improved asset utilisation, operational execution and cost reduction as a basis to grow revenue
- Revenue growth will be achieved through market share gains with good progress being made

Contractual Logistics – Africa

- Key contract renewals completed and new work secured for implementation in 2H20
- Strategic realignment to grow activities in existing territories

Passenger Transport

- Renegotiation of commuter contracts to remove fuel capping formula remains a priority
- Several new contract tenders in progress

Q&A

GARY CHAPLIN / FRANS OLIVIER

CHIEF EXECUTIVE OFFICER / CHIEF FINANCIAL OFFICER

INTEGRATED INTO EVERY DAY

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THANK YOU

INTEGRATED INTO EVERY DAY